

AUTOMATIC DATA PROCESSING INC  
Form 10-Q  
May 01, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-5397

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AUTOMATIC DATA PROCESSING, INC.  
(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	22-1467904 (IRS Employer Identification No.)
One ADP Boulevard, Roseland, New Jersey (Address of principal executive offices)	07068 (Zip Code)

Registrant's telephone number, including area code: (973) 974-5000

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  x

Accelerated filer  o

Non-accelerated filer  o (Do not check if a smaller reporting company)

Smaller reporting company  o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  o No  y

The number of shares outstanding of the registrant's common stock as of April 28, 2014 was 482,102,232.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Automatic Data Processing, Inc. and Subsidiaries

Statements of Consolidated Earnings

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
<b>REVENUES:</b>				
Revenues, other than interest on funds held for clients and PEO revenues	\$2,572.5	\$2,435.1	\$7,177.1	\$6,690.6
Interest on funds held for clients	100.1	112.0	278.6	320.4
PEO revenues (A)	647.4	562.2	1,677.0	1,473.8
<b>TOTAL REVENUES</b>	<b>3,320.0</b>	<b>3,109.3</b>	<b>9,132.7</b>	<b>8,484.8</b>
<b>EXPENSES:</b>				
Costs of revenues:				
Operating expenses	1,640.5	1,515.5	4,655.5	4,279.3
Systems development and programming costs	180.5	164.1	531.7	480.3
Depreciation and amortization	63.4	63.6	188.7	189.0
<b>TOTAL COSTS OF REVENUES</b>	<b>1,884.4</b>	<b>1,743.2</b>	<b>5,375.9</b>	<b>4,948.6</b>
Selling, general, and administrative expenses	673.2	653.6	1,986.0	1,888.0
Interest expense	0.9	1.2	4.7	7.3
<b>TOTAL EXPENSES</b>	<b>2,558.5</b>	<b>2,398.0</b>	<b>7,366.6</b>	<b>6,843.9</b>
Other income, net	(8.3 )	(12.0 )	(59.1 )	(74.2 )
<b>EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>769.8</b>	<b>723.3</b>	<b>1,825.2</b>	<b>1,715.1</b>
Provision for income taxes	259.4	241.7	611.4	581.0
<b>NET EARNINGS FROM CONTINUING OPERATIONS</b>	<b>\$510.4</b>	<b>\$481.6</b>	<b>\$1,213.8</b>	<b>\$1,134.1</b>
<b>EARNINGS FROM DISCONTINUED OPERATIONS BEFORE INCOME TAXES</b>	<b>16.6</b>	<b>1.5</b>	<b>19.5</b>	<b>70.9</b>
Provision for income taxes	5.4	0.4	6.2	26.2
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b>\$11.2</b>	<b>\$1.1</b>	<b>\$13.3</b>	<b>\$44.7</b>
<b>NET EARNINGS</b>	<b>\$521.6</b>	<b>\$482.7</b>	<b>\$1,227.1</b>	<b>\$1,178.8</b>
Basic Earnings Per Share from Continuing Operations	\$1.07	\$1.00	\$2.53	\$2.35
Basic Earnings Per Share from Discontinued Operations	0.02	—	0.03	0.09
<b>BASIC EARNINGS PER SHARE</b>	<b>\$1.09</b>	<b>\$1.00</b>	<b>\$2.56</b>	<b>\$2.44</b>
Diluted Earnings Per Share from Continuing Operations	\$1.06	\$0.99	\$2.51	\$2.33
Diluted Earnings Per Share from Discontinued Operations	0.02	—	0.03	0.09
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$1.08</b>	<b>\$0.99</b>	<b>\$2.54</b>	<b>\$2.42</b>

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Basic weighted average shares outstanding	478.9	482.7	479.1	482.8
Diluted weighted average shares outstanding	483.0	486.5	483.4	487.1

Dividends declared per common share	\$0.480	\$0.435	\$1.395	\$1.265
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(A) Professional Employer Organization (“PEO”) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of \$6,396.8 million and \$5,317.8 million for the three months ended March 31, 2014 and 2013, respectively, and \$17,484.4 million and \$15,254.5 million for the nine months ended March 31, 2014 and 2013, respectively.

See notes to the consolidated financial statements.

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Automatic Data Processing, Inc. and Subsidiaries  
 Statements of Consolidated Comprehensive Income  
 (In millions)  
 (Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net earnings	\$521.6	\$482.7	\$1,227.1	\$1,178.8
Other comprehensive income:				
Currency translation adjustments	(1.7 )	(70.1 )	34.8	(1.6 )
Unrealized net gains (losses) on available-for-sale securities	43.8	(56.8 )	(16.0 )	(35.6 )
Tax effect	(15.1 )	20.7	5.4	12.8
Reclassification of net gains on available-for-sale securities to net earnings	(1.5 )	(6.0 )	(16.5 )	(19.8 )
Tax effect	0.5	2.2	6.1	7.3
Reclassification of pension liability adjustment to net earnings	5.1	8.0	15.4	23.8
Tax effect	(0.8 )	(2.9 )	(3.6 )	(7.8 )
Other comprehensive income/(loss), net of tax	30.3	(104.9 )	25.6	(20.9 )
Comprehensive income	\$551.9	\$377.8	\$1,252.7	\$1,157.9

See notes to the consolidated financial statements.

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Automatic Data Processing, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(In millions, except per share amounts)  
(Unaudited)

	March 31, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents (A)	\$1,671.0	\$1,699.1
Short-term marketable securities	22.9	28.0
Accounts receivable, net	1,835.2	1,595.3
Other current assets	759.7	646.6
Assets of discontinued operations	—	16.7
Total current assets before funds held for clients	4,288.8	3,985.7
Funds held for clients	26,243.8	22,228.8
Total current assets	30,532.6	26,214.5
Long-term marketable securities (A)	54.3	314.0
Long-term receivables, net	148.9	138.7
Property, plant and equipment, net	767.5	728.6
Other assets	1,355.0	1,189.9
Goodwill	3,102.0	3,039.2
Intangible assets, net	636.2	643.2
Total assets	\$36,596.5	\$32,268.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$145.6	\$156.5
Accrued expenses and other current liabilities	1,212.7	1,178.3
Accrued payroll and payroll-related expenses	568.5	631.3
Dividends payable	227.0	206.7
Short-term deferred revenues	336.2	314.6
Obligations under reverse repurchase agreements (A)	—	245.9
Income taxes payable	95.9	39.0
Liabilities of discontinued operations	—	4.2
Total current liabilities before client funds obligations	2,585.9	2,776.5
Client funds obligations	25,992.3	21,956.3
Total current liabilities	28,578.2	24,732.8
Long-term debt	12.1	14.7
Other liabilities	627.6	603.1
Deferred income taxes	253.3	234.4
Long-term deferred revenues	509.2	493.2
Total liabilities	29,980.4	26,078.2
Stockholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized, 0.3 shares; issued, none	—	—
Common stock, \$0.10 par value: Authorized, 1,000.0 shares; issued 638.7 shares at March 31, 2014 and June 30, 2013; outstanding, 481.9 and 482.6 shares at March 31, 2014 and June 30, 2013, respectively	63.9	63.9



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Capital in excess of par value	513.6	456.9
Retained earnings	13,575.1	13,020.3
Treasury stock - at cost: 156.8 and 156.1 shares at March 31, 2014 and June 30, 2013, respectively	(7,577.5 )	(7,366.6 )
Accumulated other comprehensive income	41.0	15.4
Total stockholders' equity	6,616.1	6,189.9
Total liabilities and stockholders' equity	\$36,596.5	\$32,268.1

(A) As of June 30, 2013, \$245.2 million of long-term marketable securities and \$0.7 million of cash and cash equivalents have been pledged as collateral under the Company's reverse repurchase agreements (see Note 10).

See notes to the consolidated financial statements.

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Automatic Data Processing, Inc. and Subsidiaries  
 Statements of Consolidated Cash Flows  
 (In millions)  
 (Unaudited)

	Nine Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net earnings	\$1,227.1	\$1,178.8
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	247.1	236.4
Deferred income taxes	(60.2	) 3.3
Stock-based compensation expense	101.9	78.1
Net pension expense	22.2	32.7
Net realized gain from the sales of marketable securities	(16.5	) (19.8
Net amortization of premiums and accretion of discounts on available-for-sale securities	69.8	57.8
Gains on sales of buildings	—	(2.2
Gain on sale of discontinued businesses, net of tax	(10.5	) (36.7
Other	(25.7	) 20.9
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses:		
Increase in accounts receivable	(236.8	) (346.7
Increase in other assets	(280.8	) (313.7
Decrease in accounts payable	(12.6	) (16.3
Increase in accrued expenses and other liabilities	191.7	125.2
Operating activities of discontinued operations	0.2	3.9
Net cash flows provided by operating activities	1,216.9	1,001.7
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(2,081.8	) (3,837.6
Proceeds from the sales and maturities of corporate and client funds marketable securities	1,469.4	2,861.5
Net increase in restricted cash and cash equivalents held to satisfy client funds obligations	(3,290.9	) (7,896.4
Capital expenditures	(162.8	) (122.3
Additions to intangibles	(111.1	) (81.4
Acquisitions of businesses, net of cash acquired	(25.7	) (15.3
Proceeds from the sale of property, plant, and equipment and other assets	0.4	10.0
Other	0.1	1.3
Investing activities of discontinued operations	(0.5	) (0.6
Proceeds from the sale of businesses included in discontinued operations	24.4	161.4
Net cash flows used in investing activities	(4,178.5	) (8,919.4
Cash Flows from Financing Activities:		
Net increase in client funds obligations	4,103.9	8,838.1
Payments of debt	(2.7	) (17.0
Repurchases of common stock	(459.0	) (402.0
Proceeds from stock purchase plan and exercises of stock options	157.6	189.3
Dividends paid	(652.0	) (594.7
Net purchases of reverse repurchase agreements	(245.9	) —

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Other	33.9	—
Net cash flows provided by financing activities	2,935.8	8,013.7
Effect of exchange rate changes on cash and cash equivalents	(2.3	) 3.6
Net change in cash and cash equivalents	(28.1	) 99.6
Cash and cash equivalents of continuing operations, beginning of period	1,699.1	1,548.1
Cash and cash equivalents of continuing operations, end of period	\$1,671.0	\$1,647.7

See notes to the consolidated financial statements.

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Data Processing, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

(Tabular dollars in millions, except per share amounts)

(Unaudited)

Note 1. Basis of Presentation

The accompanying Consolidated Financial Statements and footnotes thereto of Automatic Data Processing, Inc. and its subsidiaries (“ADP” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Consolidated Financial Statements and footnotes thereto are unaudited. In the opinion of the Company’s management, the Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, that are necessary for a fair statement of the Company’s results for the interim periods.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the assets, liabilities, revenue, expenses, and other comprehensive income that are reported in the Consolidated Financial Statements and footnotes thereto. Actual results may differ from those estimates. All relevant footnotes have been adjusted for discontinued operations.

Interim financial results are not necessarily indicative of financial results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013 (“fiscal 2013”).

Certain prior period amounts have been reclassified to conform to the current-period presentation (see Note 6 and Note 16). These changes did not significantly affect reportable segment results.

Note 2. New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. ASU 2014-08 also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. The impact of ASU 2014-08 is dependent upon the nature of dispositions, if any, after adoption.

In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU 2013-11 requires netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax position. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective adoption is permitted. The adoption of ASU 2013-11 will not have a material impact on the Company’s consolidated results of operations, financial condition, or cash flows.

In July 2013, the Company adopted ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 requires entities to disclose the amount of income (loss) reclassified out of accumulated other comprehensive income to each respective line item on the income statement. The guidance allows companies to elect whether to disclose the reclassification either on the face of the income statement or in the notes to the financial statements, including cross-referencing other disclosures which provide additional details about these amounts. The Company has elected to disclose the reclassification in the

notes to the financial statements with cross-references to other disclosures which provide additional details about the amounts. The adoption of ASU 2013-02 did not have an impact on the Company's consolidated results of operations, financial condition, or cash flows.

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## Note 3. Earnings per Share (“EPS”)

	Basic	Effect of Employee Stock Option Shares	Effect of Employee Restricted Stock Shares	Diluted
Three Months Ended March 31, 2014				
Net earnings from continuing operations	\$510.4			\$510.4
Weighted average shares (in millions)	478.9	2.6	1.5	483.0
EPS from continuing operations	\$1.07			\$1.06
Three Months Ended March 31, 2013				
Net earnings from continuing operations	\$481.6			\$481.6
Weighted average shares (in millions)	482.7	3.1	0.6	486.5
EPS from continuing operations	\$1.00			\$0.99
Nine Months Ended March 31, 2014				
Net earnings from continuing operations	\$1,213.8			\$1,213.8
Weighted average shares (in millions)	479.1	2.9	1.4	483.4
EPS from continuing operations	\$2.53			\$2.51
Nine Months Ended March 31, 2013				
Net earnings from continuing operations	\$1,134.1			\$1,134.1
Weighted average shares (in millions)	482.8	3.3	1.1	487.1
EPS from continuing operations	\$2.35			\$2.33

Options to purchase 1.5 million and 1.2 million shares of common stock for the three months ended March 31, 2014 and 2013, respectively, and 1.5 million and 1.2 million shares of common stock for the nine months ended March 31, 2014 and 2013, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices exceeded the average market price of outstanding common shares for the respective periods.

## Note 4. Other Income, Net

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Interest income on corporate funds	\$(6.7 )	\$(6.0 )	\$(42.4 )	\$(51.3 )
Realized gains on available-for-sale securities	(2.2 )	(6.7 )	(19.7 )	(21.3 )
Realized losses on available-for-sale securities	0.7	0.7	3.2	1.5
Gains on sales of buildings	—	—	—	(2.2 )
Other, net	(0.1 )	—	(0.2 )	(0.9 )
Other income, net	\$(8.3 )	\$(12.0 )	\$(59.1 )	\$(74.2 )

During the nine months ended March 31, 2013, the Company completed the sale of two buildings that were previously classified as assets held for sale on the Consolidated Balance Sheets and, as a result, recorded gains of \$2.2 million in other income, net, on the Statements of Consolidated Earnings for the nine months ended March 31, 2013.



## Note 5. Acquisitions

Assets acquired and liabilities assumed in business combinations were recorded on the Company's Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Statements of Consolidated Earnings since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions and subject to revision when the Company receives final information, including appraisals and other analysis. Accordingly, the measurement period for such purchase price allocations will end when the information, or the facts and circumstances, becomes available, but will not exceed twelve months.

The Company acquired two businesses during the nine months ended March 31, 2014 for approximately \$28.5 million, net of cash acquired. The acquisitions were not material to the Company's results of operations, financial position, or cash flows.

The Company acquired one business during the nine months ended March 31, 2013 for approximately \$0.8 million, net of cash acquired. The acquisition was not material to the Company's results of operations, financial position, or cash flows.

The Company made contingent payments relating to previously consummated acquisitions of \$3.5 million and \$14.5 million during the nine months ended March 31, 2014 and March 31, 2013, respectively.

## Note 6. Divestitures

On February 28, 2014, the Company completed the sale of its Occupational Health and Safety services business ("OHS") for a pre-tax gain of \$15.6 million, less costs to sell. In connection with the disposal of OHS, the Company classified the results of this business as discontinued operations for all periods presented. OHS was previously reported in the Employer Services segment.

On December 17, 2012, the Company completed the sale of its Taxware Enterprise Service business ("Taxware") for a pre-tax gain of \$58.8 million, less costs to sell. In connection with the disposal of Taxware, the Company classified the results of this business as discontinued operations for all periods presented. Taxware was previously reported in the Employer Services segment.

Results for discontinued operations were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Revenues	\$3.2	\$5.0	\$13.0	\$38.5
Earnings from discontinued operations before income taxes	1.0	1.5	3.9	12.1
Provision for income taxes	0.3	0.4	1.1	4.1
Net earnings from discontinued operations before gain on disposal of discontinued operations	0.7	1.1	2.8	8.0
Gain on disposal of discontinued operations, less costs to sell	15.6	—	15.6	58.8
Provision for income taxes	5.1	—	5.1	22.1
Net gain on disposal of discontinued operations	10.5	—	10.5	36.7



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Net earnings from discontinued operations	\$11.2	\$1.1	\$13.3	\$44.7
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There were no assets or liabilities of discontinued operations as of March 31, 2014. The following are the major classes of assets and liabilities related to the discontinued operations as of June 30, 2013:

June 30,  
2013

Assets: